Registration number: SC477821

Serco Caledonian Sleepers Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2021

Contents

Company Information

Directors	Peter Strachan John Anthony Richard Whitehurst Kathryn Darbandi Christopher Gemmell
Company secretary	Serco Corporate Services Limited
Registered number	SC477821
Registered office	Basement and Ground Floor Premises 1-5 Union Street Inverness IV1 1PP
Auditor	KPMG LLP 15 Canada Square London United Kingdom E14 5GL

Strategic Report
for the Year Ended 31 March 2021

The Directors present their Strategic Report for the year ended 31 March 2021.

Principal activity
The principal activity of Serco Caledonian Sleepers Limited (the 'Company') is a train operating company, providing overnight sleeper services between Scotland and London.

Fair review of the business
Excluding one-time items, the Company made a loss for the financial year ending 31 March 2021 of £3.9m. The material one-time items include:

• £7.3m for commercial settlements to compensate for historic losses, primarily losses incurred during the introduction of the new train fleet in 2019. This includes £4.5m settlement recognised in other income.
• £7.1m release of Onerous Contract Provision (OCP). The element of the OCP that has been released relates to the projected future losses for periods now covered by or expected to be covered by agreements to protect the Company from the adverse impacts of Covid-19.

The reported profit for the financial year ending 31 March 2021 was therefore £10.5m (2020: loss of £4.6m), meaning that the total Shareholder Deficit as at 31 March 2021 was £77.3m (2020: £88.4m).

In the year ended 31 March 2021 the Company has been adversely impacted by Covid-19, with passenger volumes and revenue dropping significantly. An Emergency Measures Agreement (EMA) was entered into with Transport Scotland, with effect from 1 March 2020 to 19 September 2020. As the impact of Covid-19 continued through 2020, two further EMAs were entered into with Transport Scotland. The second (EMA 2) covering the period 19 September 2020 to 31 March 2021 and the third (EMA 3) commenced 1 April 2021 and since the balance sheet date has been extended to 12 December 2021. The EMAs provide protection against the loss of revenue due to the impact of the pandemic and also against the potential of increased cost of continuing to maintain the service against a backdrop of heightened requirements around cleaning and social distancing.

Despite the current support from EMAs, the continuing uncertainty surrounding Covid-19 and the proximity to a contractual rebasing point in our contract with Transport Scotland creates uncertainty that means the Company has recognised an OCP of £10.4m at 31 March 2021 (2020: £17.3m). The position under the terms of the Franchise Agreement, outside of the EMA, provide a mechanism that requires Transport Scotland to bear 50% of contract losses from 1 April 2020 and the Company has the right to seek a rebase to the financial terms of the Franchise Agreement that would result either in a small positive profit margin for the Company from 1 April 2022, or an exit from the contract.

The Company has not paid a dividend in the year (2020: £nil).

Key performance indicators for the Company continue to be safety, timetable achievement, number of guests travelling and customer satisfaction, along with achievement of Franchise Agreement obligations.

Principal risks and uncertainties
The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. There continue to be a number of assumptions underpinning the provision that have a range of potential outcomes, including volume and pricing driven by the improved passenger service from the new trains and the ongoing impact on public transport usage following the Covid-19 pandemic in the short to medium term. Although there are future losses on the contract, the Directors are satisfied with the way in which the Company is managing the operational risks that support this view.

Strategic Report (continued)
for the Year Ended 31 March 2021

Principal risks and uncertainties (continued)
Given the expected future loss, a funding arrangement is in place with Serco Group plc and a related letter of support is in place. This ensures that there is sufficient cash flow to meet obligations as they fall due and mitigates any liquidity risk.

There is considered to be limited credit risk given the majority of revenues are either cash based or Government franchise receipts.

There is considered to be an interest rate risk as a result of the arms length loan in place, however the level of exposure to the risk is mitigated by the fact the loan is held with the Company's ultimate parent undertaking, Serco Group plc, which is also the group entity that provides the letter of support used by the Directors in finalising their assessment of the Company's ability to continue as a going concern.

Serco Group manage and oversee financial risk for all Serco Group entities. A quarterly risk register is maintained by the Company and discussed at Senior Management Team meetings. This input feeds the Group risk register, which is updated at least quarterly, reviewed six-monthly by the Risk Oversight Group and discussed at quarterly board meetings. Risk management is fundamental to how the business is managed. Risk management policies, systems and processes form part of the Serco Management System (SMS). Certain risks identified at Group level also apply to the Company and procedures are put in place within the Company to manage these risks with guidance from the Risk Oversight Group.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This is supported by a Group funding arrangement for which a letter of support is in place. As a result the going concern basis of accounting continues to be adopted in preparing the financial statements.

Risks associated with the coronavirus outbreak

Coronavirus (Covid-19) was originally identified as a disease in China late in 2019. Following global transmission of the disease early in 2020, Europe and other continents began identifying cases which continued to rise in number such that on 12 March 2020 the World Health Organisation characterised the outbreak of Covid-19 as a global pandemic. It remains difficult to reliably estimate the length and severity of these developments and the impact of the pandemic on the financial position and financial results of the Company in future periods. As noted above, changing customer demand and the Emergency Measures Agreement mean the profit impact during the pandemic has been minimal although with little certainty over future developments in relation to either the Company with continue to closely monitor the impact of the pandemic.

The principal risks that affect the Company are broadly aligned to those disclosed in the Group's Annual Report and Accounts. The key risk drivers, mitigating controls and priorities remain largely unchanged, however the Group has a greater focus on the impact from Covid-19 in the short to medium term and an enhanced focus on the existence of emerging risks. They remain applicable to the Company, which benefits from the Group's risk management programme and the management of these from a Group perspective is relevant as the Company places reliance on a letter of support, which is not legally binding, from its ultimate parent, Serco Group plc (see note 2).

Strategic Report (continued)
for the Year Ended 31 March 2021

Principal risks and uncertainties (continued)
Brexit

During the year ending 31 March 2021, and following the UK's exit from the European Union on the 31 December 2020, the Company has continued to monitor the potential implications of the UK's withdrawal from the European Union ("Brexit") and its impact on the Company. Reiterating the position outlined in the financial statements for the year ended 31 March 2020, it is considered unlikely that Brexit will directly impact the Company to a material extent. The Directors will continue to proactively assess the potential impacts of Brexit as the transition progresses through 2021, noting that impacts could not only be financial, but also require changes to risk mitigation strategies where appropriate.

Section 172 (1) Statement
The Directors of the Company are bound by their duties under the Companies Act 2006 and, in particular, must act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, taking into account the factors listed in section 172(1)(a) to (f) of the Companies Act 2006.

The following disclosure describes how the Board has had regard to those matters and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Board Engagement with Stakeholders
The Board is committed to enhancing engagement with all our stakeholders, the Board looks to the activities undertaken by the Board of Directors of Serco Group plc (the 'Serco Group plc Board'), the Company's ultimate parent company, in engaging with the Group's wider stakeholders.

The Serco Group plc Board considered that, during these unprecedented times, our stakeholders would benefit from understanding more about the approach taken by Serco Group plc to meeting the challenges and the impact on the ongoing performance of the Group due to Covid-19. The Serco Group plc Board met virtually on some occasions during the year and a number of additional meetings were held to discuss how the Group was meeting the challenges it faced. The Serco Group plc Board also received regular briefings from management in the form of written reports. There were regular communications with the wider business over this time and members of the Serco Group plc Board were able to attend divisional management conferences before the full impact of Covid-19 meant such events were not possible as well as attending Colleague ConneXion and Inclusion Hub events, management meetings and contract visits virtually. The Serco Group plc Board prides itself on the Company's strong focus on transparency and it was keen to keep the market aware of developments so, in addition to the scheduled programme of announcements, the Serco Group plc Board approved the release of unscheduled Trading Updates which included the impact of Covid-19 on the business on 2 April 2020 and 16 October 2020.

Covid-19 has had a significant impact on all of the Serco Group plc Board stakeholders and the Serco Group plc's response is set out throughout the Serco Group plc 2020 Annual Report and also in the Covid-19: Our response report on pages 38 and 39 of the Serco Group plc 2020 Annual Report.

In addition to the methods of engagement described above and over the following pages, the interests of our stakeholder groups are considered for the Serco Group as a whole by the Serco Group plc Board through a combination of:

- Regular reports and presentations at scheduled Serco Group plc Board and Committee meetings, including operational reports presented by the Chief Executive and updates from the Chief Financial Officer, Chief Operating Officer, Group General Counsel and Company Secretary and other senior management on a range of issues including financial matters, approach to ESG matters, health and safety, assurance and controls ethics and compliance, people matters (including employee engagement) and investor feedback.

Strategic Report (continued)
for the Year Ended 31 March 2021

Board Engagement with Stakeholders (continued)

- Unscheduled Serco Group plc Board and Committee meetings, if the Serco Group plc Board needs to be informed of matters or when a decision is required before scheduled Board meetings such as Covid-19 developments, trading updates, bids, refinancing or M&A opportunities.
- Regular communication from the Serco Group plc 2020 Annual Report Executive Directors, senior management from across the Serco Group and subject matter experts in a number of areas.
- A rolling agenda of matters to be considered by the Serco Group plc Board and Committees throughout the year, including a strategy review which considers the purpose of the Serco Group plc and strategy to be followed by the Group, which is supported by a budget for the following year and a medium-term financial plan.
- Formal consideration of large bids, acquisitions, refinancing, share buybacks, dividends and other matters, including any factors which are relevant to major decisions taken by the Serco Group plc Board through the year in line with the Delegation of Authority and Terms of Reference for each Serco Group plc Board Committee.
- The risk management process and other routine Serco Group plc Audit Committee, Corporate Responsibility Committee, Group Risk Committee, Nomination Committee and Remuneration Committee agenda items, as described later in the Serco Group plc 2020 Annual Report on pages 91 to 102 and 105 to 133.

As with other large and complex companies, the Directors of the Company fulfil their duties partly through a governance framework which delegates day-to-day decision-making. The Serco Group plc Board recognises that such delegation needs to be much more than simple financial authorities and it covers areas such as risk and new sector or country approaches. Presented in the Serco Group plc 2020 Annual Report is a summary of the governance structure, which covers the values and behaviours expected of our employees; the standards they must adhere to; how we engage with stakeholders; and how the Board looks to ensure that we have a robust system of control and assurance processes (see pages 40 to 49 of the Serco Group plc 2020 Annual Report).

The Group's Corporate Responsibility ('CR') framework, of which the Company forms part, is structured around our key stakeholders and this year we have focused even more on our approach to and progress in delivering our ESG commitments. The Group's progress and performance is summarised in the ESG Impact and Integrity section of the Serco Group plc 2020 Annual Report on pages 40 to 49.

Stakeholder group - Our shareholders

Engagement with and receiving the support of our ultimate parent company is a key factor in achieving our ambitions. We seek long-term relationships based on transparency, honesty and clarity - all of which are critical for building trust.

Stakeholder concerns

The Serco Group plc shareholders are concerned with a broad range of issues, including how the Company has responded to and is affected by Covid-19, other operational and financial performance, developments in our markets for public services, the execution and delivery of our strategy, the sustainability of our business, and the impact Serco has on the communities we serve and the environment in which we operate.

Performance developments are comprehensively assessed in the Serco Group plc Annual Report, including the Key Performance Indicators section and the broader discussion and analysis in the Strategic Report, Directors' Report and Financial Statements. Further ESG items and our CR performance and data are also set out in the ESG Impact and Integrity section on pages 40 to 49 of the Serco Group plc 2020 Annual Report.

Strategic Report (continued)
for the Year Ended 31 March 2021

How the Board engages with stakeholders

- The financial results of the components making up the Company are reviewed according to delegated authorities on a monthly basis.
- The Group Chief Executive and Group Chief Financial Officer and other members of the Serco senior management team, including Directors of the Company, attend monthly divisional performance reviews and divisional executive management team meetings to discuss relevant developments in the business. During 2020, these meetings were conducted mainly through conference calls and online presentations, however this did not prevent or reduce the cadence and frequency of such meetings.
- As part of a Group level programme of engagement, the Investor Relations team consult with institutions, proxy advisers and ESG analysts as Serco Group plc shareholders value their opinions, and discussions are held with pension trustees, major shareholders and debt holders to seek their views and feedback on specific topics.
- More than 116 announcements were issued by Serco Group plc throughout the year regarding contract awards, contract losses, changes to the Serco Group plc Board, material shareholdings, refinancing and corporate transactions, including details of how the Group was responding to the challenges presented by Covid-19, key contract wins, extensions and losses, and acquisitions. These announcements also drive ad hoc engagement with investors in Serco Group plc and are available on the Serco Group plc website.
- The Head of Investor Relations and the Group Treasurer provide regular reports to the Serco Group plc Board, which includes details of activities within the Company.

Key topics of engagement

- The Company's performance against the strategy of the wider Group.
- The Company's approach to meeting the challenges brought by Covid-19.
- Developments in our customer markets and the competitive landscape.
- Opportunities for acquisitions.
- Capital allocation considerations.

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc shareholders' opinions were, and continue to be, taken into consideration by the Serco Group plc Board when developing and reviewing the Group's strategy and performance and these guiding principles are reflected in the strategy of the Company.
- Directors' of the Company attended Divisional and Leadership Conferences in January and February 2020. At these conferences, one of the sessions featured interviews with and feedback from five key Serco Group plc shareholders on their views of Serco Group plc and their perspective on key challenges and opportunities. This enabled the Directors' of the Company and the wider senior leadership team to hear directly from Serco Group plc shareholders.

Stakeholder group - Our people

Our people are at the heart of our business and, as a Company, we are the sum of the efforts, energy and values of our people, who are critical to achieving our mission of improving the lives of citizens and service users around the world.

Strategic Report (continued)
for the Year Ended 31 March 2021

Stakeholder concerns
Through the annual Group-wide Viewpoint survey and other dialogue with colleagues, we know that our people feel passionately about the place they work and the services that they deliver. As you would expect for a business as diverse as that of the Group, our colleagues express their opinions across a very wide range of areas. However, there are currently three main areas of concern raised by colleagues on a regular basis: career progression opportunities, connection and collaboration within Serco, and having a voice in decision making within the business.

The Group's People Report, available on the Serco Group plc website www.serco.com, sets out the work undertaken to make Serco a better, safer and more inclusive place to build a career.

How the Board engages with stakeholders

- Feedback is sought from our people annually through the Group-wide engagement survey, Viewpoint, supplemented with more frequent 'pulse' surveying in selected parts of the business.
- Kirsty Bashforth, Non-Executive Director and Colleague Voice representative on the Serco Group plc Board, reported to the Serco Group plc Board the feedback received from our people at virtual engagement activities attended throughout the year as part of the Employee Voice and Colleague ConneXions initiatives. Dame Sue Owen, Non-Executive Director of Serco Group plc, was appointed as our new Colleague Voice representative on the Serco Group plc Board in January 2021, succeeding Kirsty Bashforth.
- The Serco Inclusion Hub provides a platform for our employee networks, Serco Inspire, Serco Unlimited, Serco Embrace and In@Serco, to better coordinate and collaborate. Members of the Serco Group plc Board and members of the executive teams have participated in a number of the Serco Inclusion Hub events. Regular reports on the activities of each network are received by the Serco Group plc Board through the regular People reports provided by the Group Chief Operating Officer.
- Members of the Company's Board and the Executive Directors of Serco Group plc meet with employees during contract visits and with senior management monthly at divisional performance review and divisional executive management team meetings.
- Operational matters are considered at monthly senior management team meetings attended by Directors of the Company during the year.

Key topics of engagement

- Global focus areas for diversity and inclusion: Gender, Disability, Multicultural and LGBT+.
- Matters impacting employees on the frontline of our contracts.
- Talent and leadership succession.
- Employee health, safety and wellbeing.
- Feedback received from employees through the Viewpoint survey and the actions proposed by management in response.

How stakeholder interests influence Board discussions and principal decisions

- The Serco Group plc Board considered the impact and the development opportunities that potential acquisitions and contract bids would afford employees of the Company, and the impact on the Company's ability to attract and retain staff.
- The Serco Group plc Board continued to endorse the Employee Voice and Colleague ConneXions initiatives, and the Serco Inclusion Hub.

Strategic Report (continued)
for the Year Ended 31 March 2021

How stakeholder interests influence Board discussions and principal decisions (continued)

- Discussions of the Company Board and the Serco Group plc Board have been better informed due to the deeper understanding of the work undertaken by our employees, which has been developed during face-to-face visits and attendance at the Divisional and Leadership Conference, as well as virtual contract visits undertaken in each Division. At these contract visits and events, the Directors meet and hear directly from Serco employees on a variety of topics. In addition, the direct feedback from the Viewpoint survey gives real insight into employee concerns.
- Much of the discussions at the Serco Group plc Board and at the divisional executive management team meetings, attended by the Directors of the Company, related to the impact of Covid-19 on the wellbeing of colleagues working on the front line and those working from home, and sought to ensure their safety and wellbeing. As a result, there was an even greater focus on Health, Safety and Environmental factors across the Group during 2020.
- The feedback received from employees resulted in the Serco Group plc Board endorsing the expedition of the delivery of the Wellbeing Strategy, including the introduction of a number of employee support initiatives and the introduction of wellbeing training for managers.

Stakeholder group - Our customers

As an international B2G business our customers are many and varied, consisting of local, regional and national governments and agencies, those receiving our services at a contract level versus those procuring the services, and those who use the services we provide on behalf of our customers.

Our business is built on our ability to retain existing and win new customers. As such, understanding, engaging with, and responding to customer needs is a critical priority.

Stakeholder concerns

While the demands vary significantly, at the most basic level our customers seek to procure from us quality public service delivery, at a price they feel represents value for money. This requires us to have both deep understanding of their sector specific needs, as well as technical and commercial nous as to how to deliver public services most efficiently.

In addition, there are significant regional and sector specific priorities, that vary enormously and also change over time. For example, the increasing demand for the employment of nationals in the Middle East, the growing drive for social value outcomes in the UK, and the importance of supporting aboriginal communities more effectively in Australia. It is critical that we maintain a detailed appreciation of these priorities so that we can respond accordingly.

How the Board engages with stakeholders

- The Group Chief Executive and Group Chief Financial Officer meet directly with different customers across all our regions and, while this has been more challenging due to Covid-19, meetings have been possible. The Divisional Performance Reviews also contain details on customer issues and engagement.
- Members of the Serco Group plc Board attended virtual contract visits and joined management meetings throughout the year, where they had the ability to hear about our customers and, whilst they have been a lot less frequent this year, some face-to-face contract visits did take place which enabled some of the Serco Group plc Board to speak directly to customers.

Strategic Report (continued)
for the Year Ended 31 March 2021

How the Board engages with stakeholders (continued)

- Our Group-wide 'Operational Report' gives updates and feedback on our markets, customers, and operational performance to the Serco Group plc Board and are made available every month and discussed at the Serco Group plc Board meetings. The Serco Group plc Board also receive regular updates on operational matters, customer satisfaction and Business Development from executive management in each Division. One of our key customers also attended a Serco Group plc Board meeting during the year, which gave the Serco Group plc Board an opportunity to receive feedback and engage directly with the customer.
- The annual Strategy Planning process is a bottom-up exercise including every part of the business, taking into account both existing and future customer needs and trends over the next five years. Due to Covid-19 and the need for the business to focus on operations, a lighter process was conducted in 2020. As in previous years, this process culminated in a day-long Group-wide Board Strategy Day during which the Serco Group plc Board debated current and future customer requirements at length.
- The Serco Institute, often in conjunction with customers, looks at macro societal issues and the research and development of public service solutions.

Key topics of engagement

- Customer and Serco strategy and operational performance.
- The procurement processes employed by key customers, such as the Outsourcing Playbook in the UK.
- New and future customer requirements and trends, such as increased focus on environmental, social, and governance matters.
- Specific bid and business development opportunities.
- The overall performance of the sector.
- Serco innovations in response to customer trends and needs.
- Early engagement concerning the solutions and support that the Group could offer in light of the rapidly changing environment due to Covid-19 and working with customers to predict the longer term impacts.

How stakeholder interests influence Board discussions and principal decisions

- Understanding the new and developing challenges faced by customers was key in giving the Serco Group plc Board confidence that the Group could effectively and efficiently provide the support needed to meet the demands of government responses to Covid-19.
- The Serco Group plc Board deployed customer insight in approving the changes to operating models to minimise impact to operations during the pandemic.
- The Serco Group plc Board deployed its customer insight to positive effect in decisions relating to our submission of our largest bids over the year and the nature of our proposals, which the Board scrutinises.
- Following customer engagement and insight gathered from the annual strategy process, the Serco Group plc Board provided guidance on our strategy, strategic decisions, as well as resource allocation, and prioritisation across our markets and customers in 2020-2021.
- The Serco Group plc Board continued to drive the Serco Group plc Executive Directors, and in turn the Directors of the Company, to act on new customer trends and priorities as a result of engagement in 2020, including our plans on ESG and sustainability, social value, and voluntary, community, and social enterprise organisations.

Strategic Report (continued)
for the Year Ended 31 March 2021

Stakeholder group - Our suppliers

Suppliers have an important role to play in Serco being a superb provider of public services. We aim to build honest, respectful and transparent relationships with suppliers who have high levels of regulatory compliance and share our ethical standards and commitment to sustainability throughout the supply chain.

Stakeholder concerns

Our suppliers are concerned with the ease of doing business with Serco, responsible business practices, conduct and ethics, driving innovation, building long-term relationships, fair business terms, and receiving prompt payment.

How the Board engages with stakeholders

- Direct engagement via the Group Chief Executive and Group Chief Financial Officer.
- Reports to the Serco Group plc Board concerning operational matters from senior management on specific business units.
- Regular reports to the Serco Group plc Board from the Group Director, Enterprise Risk, the Group Director, Business Compliance and Ethics, and the Director of Procurement concerning management and assessment of suppliers.
- Regular reports to the Serco Group plc Board from the Group Chief Financial Officer, including on creditor payable days.

Key topics of engagement

- Due diligence processes.
- Supplier relationships.
- Supply chain management.
- Fair payment practices.
- Modern slavery risk.
- The impact of Covid-19 on the supply chain and on our suppliers.
- The impact of Brexit on our supply chain and assessment of the risks posed by Brexit.

How stakeholder interests influence Board discussions and principal decisions

- The management of suppliers has been discussed at the Serco Group plc Board.
- The Serco Group plc Board considered the potential impact of Covid-19 on the supply chain and endorsed temporary changes to procurement processes to support suppliers to mitigate the impact of Covid-19.
- Key risks in relation to the supply chain were considered by the Serco Group plc Board when reviewing the approach to due diligence of suppliers, particularly in light of the impact of Covid-19 on the operating environment.
- Feedback on the performance of key financial suppliers was considered periodically during the year, with performance being discussed at the Audit and Group Risk Committees, and feedback provided to the Serco Group plc Board concerning the discussions.

Strategic Report (continued)
for the Year Ended 31 March 2021

Stakeholder group - Our communities and environment

Our communities comprise those living and working in close geographic proximity to our operations, those for whom we provide services on behalf of our government customers, and those who represent the needs of our communities, including charities and local government.

Operating amongst and on behalf of our communities, we strive to maintain a deep understanding of the complex social challenges that impact them, whilst recognising our responsibility to contribute to the sustainability and wellbeing of society and the economy wherever we operate.

We are also committed to limiting the impact of our operations on the environment through more sustainable business practices for our customers and stakeholders, including our communities.

Stakeholder concerns

Our communities are primarily concerned with the impact of our operations on the local society, the economy, and the environment - locally and beyond - and that we operate and conduct our business as a respectful and responsible neighbour.

How the Board engages with stakeholders

- The Serco Group plc Board receives regular operational reports from the Group Chief Executive.
- Reports to the Serco Group plc Board from senior management and discussion at senior management team meetings attended by the Directors of the Company concerning operational matters in specific business units and the work undertaken as part of Colleague ConneXions.
- Meetings with users of the services we provide on behalf of our customers during contract visits by the Serco Group plc Board.
- Attendance by the Serco Group plc Board at Serco Institute events.
- Review of the work of the Serco Foundation by the Serco Group plc Board.
- The Director, Business Compliance & Ethics and the Group Head of Environment, Energy and Sustainability provide regular updates to the Serco Group plc Board on human rights matters, the Speak Up service, and environmental concerns.

Key topics of engagement

- Further information concerning CR matters is provided in the CR Report on the Serco Group plc website.
- Political environment.
- Impact on the community of pursuing business development opportunities.

How stakeholder interests influence Board discussions and principal decisions

- Discussion at the Serco Group plc Board of the impact of Covid-19 on communities and how Serco can help.
- Discussions at the Serco Group plc Board focused on physical assaults in prisons under our justice contracts in the UK.
- The Serco Group plc Board endorsed the modern slavery statement.
- The Serco Group plc Board reviewed and endorsed the Environmental Strategy, and approved carbon reduction targets, and a commitment to net zero in our own assets, leases and business travel by 2030, strengthening the Group environmental agenda and aligning it more closely to the Group purpose.

Strategic Report (continued)
for the Year Ended 31 March 2021

How stakeholder interests influence Board discussions and principal decisions (continued)

- Meetings with users of the services we provide on behalf of our customers during contract visits by the Serco Group plc Directors facilitates a deeper discussion of operational matters. This has been more challenging due to Covid-19 and instead the Serco Group plc Board received more regular updates from management on matters impacting service users. In considering business development proposals from senior management, this also enabled the Serco Group plc Board to better assess service user needs and the ability to provide the services under the contract to the standards expected, and identify any gaps in capabilities.

Streamlined Energy and Carbon Reporting (SECR)

Serco Caledonian Sleepers is going to play its part to address climate change and further details on the goals set by the Directors along with emissions related information can be found in the Serco Group plc 2020 Annual Report and Accounts on pages 46 to 49.

Approved by the Board on 15/10/2021 and signed on its behalf by:

J. Whitehurst
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John Anthony Richard Whitehurst
Director

Directors' Report
for the Year Ended 31 March 2021

The Directors present their report and the financial statements for the year ended 31 March 2021.

Directors of the Company
The Directors who held office during the year, and subsequently to the date of this report, unless otherwise stated, were as follows:

Peter Strachan

Ryan Robert Flaherty (resigned on 1 January 2021)

John Anthony Richard Whitehurst

Kathryn Darbandi (appointed on 1 January 2021)

Christopher Gemmell (appointed on 21 May 2021)

Going concern
The Company had net current assets of £3,876k as at 31 March 2021 and a profit for the year then ended of £10,528k. The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The financial forecasts prepared by the Directors for a period of 12 months from the date of the approval of these financial statements indicate that the Company will return to making operating losses prior to the utilisation of the onerous contract provision held on the balance sheet once the Emergency Measures Agreements come to an end. In severe but plausible downside scenarios associated with the impact of Covid-19 over the forecast period, including the impact of future waves, the Directors acknowledge that there may be a requirement to request additional funds from the Company's parent. The Company also has a payable due to its ultimate parent company, Serco Group plc, of £76.4m. As a result of the forecast operating losses and the amount payable to Serco Group plc, noting that the Company is in a net liabilities position, the Company has obtained a letter of support from Serco Group plc to meet its liabilities as they fall due for the next twelve months.

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the next twelve months. The Directors of the Company have been made aware of the going concern assessment which has been performed in respect of the Group. The Directors believe they are able to place reliance on this letter of support, which is not legally binding, for the following reasons discussed below.

During the year to 31 December 2020, the Group saw a modest impact on its profitability as a result of Covid-19, with profits being impacted positively by c. 1%. The Group has announced its expectation that profitability will continue to improve through 2021, including an increased contribution from Covid-19 related impact.

In assessing the basis of preparation of the condensed set of financial statements for the six months ended 30 June 2021, the Group have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; particularly in assessing the applicability of the going concern basis, the review period and disclosures. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

The Group have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, key uncertainties and sensitivities, including the ongoing and potential future impacts of Covid-19 on the Group's future performance. In making this assessment the Directors have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Group have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

Directors' Report (continued)
for the Year Ended 31 March 2021

Going concern (continued)

Due to the limited adverse impacts of Covid-19 on the Group's profitability, the Group believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Group believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Group are then able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible.

This reverse stress test at 30 June 2021 shows that, even after assuming that the US private placement loan notes of $88m due to mature before 31 December 2022 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, combined with a profit margin 50 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants without a requirement for any mitigating actions. At 30 June 2021, the Group had £665m of committed credit facilities and committed headroom of £439m. As at June 2021, the Group's leverage ratio is below both its covenant of 3.5x and the Group's target range of 1x-2x at 0.95x. In undertaking this review the Group has considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be at least 12 months from 4 August 2021, the date of approval of the Group's condensed financial statements for the six month period ended 30 June 2021.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The Directors intention to continue to trade for the foreseeable future is dependent on the rebase of the financial terms of the Franchise Agreement during 2022 that would result either in a small positive profit margin for the Company from that date, or an exit from the contract.

Based on the letter of support from Serco Group Plc, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, circumstances in respect of the rebase of the financial terms of the Franchise Agreement represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, the ability of the Company to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Proposed dividend

The Directors do not recommend the payment of a dividend (2020: nil).

Employment of persons with a disability

Full and fair consideration is given to applications for employment made by the persons with a disability, having regard to their aptitude and ability. Appropriate training is arranged, including retraining of employees who have become persons with a disability.

Directors' Report (continued)
for the Year Ended 31 March 2021

Employee involvement
Managers are tasked with developing employees' awareness of factors affecting business and matters concerning them as employees and noting employees' views so that they can be taken in to account when making decisions that may affect them or the business. Regular meetings are held with employee representatives where trade union or staff associations are recognised or where works councils are constituted.

Charitable donations
During the year the Company did not make any charitable donations (2020: £nil).

Political contributions
The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Disclosure of information to the auditor
The Directors have taken steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Post balance sheet events
Since the balance sheet date the third iteration of the Emergency Measures Agreement (EMA 3), which was due to end on 19 September 2021, has been extended to 12 December 2021.

Reappointment of auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 15/10/2021 and signed on its behalf by:

J. Whitehurst

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John Anthony Richard Whitehurst
Director

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 102, the Financial Reporting standard applicable in the UK and the Republic of Ireland ("FRS 102").

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Serco Caledonian Sleepers Limited

Opinion

We have audited the financial statements of Serco Caledonian Sleepers Limited (the 'Company') for the year ended 31 March 2021, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements which indicates that the Directors' intention to continue to trade for the foreseeable future is dependent on the rebase of the franchise contract during 2022. These events and conditions, along with the other matters explained in note 2, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Going concern

The Directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our financial statements audit work, we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations - ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, internal audit, internal legal counsel and inspection of policy documentation as to the entity's high-level policies and controls and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board of Directors meeting minutes; and
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

Independent Auditor's Report to the Members of Serco Caledonian Sleepers Limited (continued)

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that variable revenue is inappropriately recognised;
- the risk that the entity management may be in a position to make inappropriate accounting entries; and
- the risk of bias in accounting estimates and judgements such as assessing whether long-term contract are onerous, and determining whether provisions for disputes and litigation are adequate and the assumptions.

We did not identify any additional fraud risks.

We also performed procedures including:

- identifying journal entries and other adjustments based on risk criteria and comparing the identified entries to supporting documentation. These included entries posted by senior finance management, those posted to seldom-used accounts and those posted to unexpected accounts; and
- assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the entity's regulatory and legal correspondence and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the entity is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the entity is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the entity's license to operate. We identified the following areas as those most likely to have such an effect:

- health and safety, given the front-line nature of many of the entity's operations;
- anti-bribery and corruption, recognising the Governmental nature of many of the entity's customers;
- employment law, due to the significant number of employees the entity employs; and
- data protection laws, such as UK General Data Protection Regulations.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Independent Auditor's Report to the Members of Serco Caledonian Sleepers Limited (continued)

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Directors are responsible for the the other information, which comprises the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 16, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of Serco Caledonian Sleepers Limited (continued)

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Wrigglesworth (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London United Kingdom
E14 5GL

Date: 15 October 2021

Profit and Loss Account
for the Year Ended 31 March

	Note	2021 £ 000	2020 £ 000
Turnover	4	53,845	41,222
Cost of sales		(35,889)	(35,167)
Gross profit		**17,956**	**6,055**
Administrative expenses		(7,607)	(12,183)
Other income	5	4,459	-
Operating profit/(loss)	6	**14,808**	**(6,128)**
Interest receivable and similar income	7	5	4
Interest payable and similar charges	8	(4,208)	(2,292)
Profit/(loss) before tax		**10,605**	**(8,416)**
Tax on profit/(loss) on ordinary activities	12	(77)	3,845
Profit/(loss) for the year		**10,528**	**(4,571)**

The above results were derived from continuing operations.

The notes on pages 25 to 46 form an integral part of these financial statements.

Statement of Comprehensive Income
for the Year Ended 31 March

	Note	*2021* *£ 000*	*2020* *£ 000*
Profit/(loss) for the year		10,528	(4,571)
Other comprehensive income for the year:			
Remeasurements of post employment benefit obligations	19	561	549
Total comprehensive income/(expense) for the year		11,089	(4,022)

The notes on pages 25 to 46 form an integral part of these financial statements.

Balance Sheet
as at 31 March

Registration number: SC477821

	Note	2021 £ 000	2020 £ 000
Current assets			
Debtors	13	6,610	11,635
Cash at bank and in hand	14	11,491	4,235
		18,101	15,870
Current liabilities			
Creditors: amounts falling due within one year	15	(13,431)	(16,805)
Provisions	17	(794)	(5,560)
Net current assets/(liabilities)		3,876	(6,495)
Total assets less current liabilities		3,876	(6,495)
Creditors: amounts falling due after more than one year	16	(71,365)	(70,165)
Provisions	17	(9,846)	(11,786)
Net liabilities		(77,335)	(88,446)
Capital and reserves			
Called up share capital	20	-	-
Other reserves		2,546	1,963
Profit and loss account		(79,881)	(90,409)
Shareholder's deficit		(77,335)	(88,446)

These financial statements were approved by the Board on 15/10/2021 and signed on its behalf by:

J. Whitehurst

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John Anthony Richard Whitehurst
Director

The notes on pages 25 to 46 form an integral part of these financial statements.

Statement of Changes in Equity
for the Year Ended 31 March

	Called up share capital £ 000	*Other reserves £ 000*	*Profit and loss account £ 000*	*Total £ 000*
At 1 April 2019	-	1,392	(85,838)	(84,446)
Loss for the year	-	-	(4,571)	(4,571)
Actuarial gain on defined benefit pension scheme	-	549	-	549
Total comprehensive income/(expense)	-	549	(4,571)	(4,022)
Share based payment transactions	-	22	-	22
At 31 March 2020	-	1,963	(90,409)	(88,446)

At 1 April 2020	-	1,963	(90,409)	(88,446)
Profit for the year	-	-	10,528	10,528
Actuarial gain on defined benefit pension scheme	-	561	-	561
Total comprehensive income	-	561	10,528	11,089
Share based payment transactions	-	22	-	22
At 31 March 2021	-	2,546	(79,881)	(77,335)

Included within 'other reserves' are retirement benefit obligation reserves of £2,440k (2020: £1,879k) and share based payment reserves of £106k (2020: £84k).

The notes on pages 25 to 46 form an integral part of these financial statements.

Notes to the Financial Statements
for the Year Ended 31 March

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in the United Kingdom.

The address of its registered office is:
Basement and Ground Floor Premises
1-5 Union Street
Inverness
IV1 1PP

The Company is registered in Scotland with company number SC477821. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

These financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

The level of rounding is to the nearest thousand ('000) unless otherwise stated.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

Summary of disclosure exemptions
The Company's ultimate parent undertaking, Serco Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Serco Group plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from the address provided in note 24. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes.
- Key Management Personnel compensation.
- Certain disclosures required by FRS 102.26 Share Based Payments; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

Notes to the Financial Statements (continued)
for the Year Ended 31 March

2 Accounting policies (continued)

Going concern

The Company had net current assets of £3,876k as at 31 March 2021 and a profit for the year then ended of £10,528k. The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The financial forecasts prepared by the Directors for a period of 12 months from the date of the approval of these financial statements indicate that the Company will return to making operating losses prior to the utilisation of the onerous contract provision held on the balance sheet once the Emergency Measures Agreements come to an end. In severe but plausible downside scenarios associated with the impact of Covid-19 over the forecast period, including the impact of future waves, the Directors acknowledge that there may be a requirement to request additional funds from the Company's parent. The Company also has a payable due to its ultimate parent company, Serco Group plc, of £76.4m. As a result of the forecast operating losses and the amount payable to Serco Group plc, noting that the Company is in a net liabilities position, the Company has obtained a letter of support from Serco Group plc to meet its liabilities as they fall due for the next twelve months.

Serco Group plc has indicated its intention to continue to make available such funds as are needed by the Company and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the next twelve months. The Directors of the Company have been made aware of the going concern assessment which has been performed in respect of the Group. The Directors believe they are able to place reliance on this letter of support, which is not legally binding, for the following reasons discussed below.

During the year to 31 December 2020, the Group saw a modest impact on its profitability as a result of Covid-19, with profits being impacted positively by c. 1%. The Group has announced its expectation that profitability will continue to improve through 2021, including an increased contribution from Covid-19 related impact.

In assessing the basis of preparation of the condensed set of financial statements for the six months ended 30 June 2021, the Group have considered the principles of the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, 2014'; particularly in assessing the applicability of the going concern basis, the review period and disclosures. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

The Group have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, key uncertainties and sensitivities, including the ongoing and potential future impacts of Covid-19 on the Group's future performance. In making this assessment the Directors have considered the Group's existing debt levels, the committed funding and liquidity positions under its debt covenants, its ability to generate cash from trading activities and its working capital requirements. The Group have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

Due to the limited adverse impacts of Covid-19 on the Group's profitability, the Group believe that appropriate sensitivities in assessing the Group's ability to continue as a going concern are to model reductions in the Group's win rates for new business and rebids, and reductions in profit margins. Due to the diversity in the Group's operations, the Group believe that a reverse stress test of these sensitivities to assess the headroom available under the Group's debt covenants and available liquidity provides meaningful analysis of the Group's ability to continue as a going concern. Based on the headroom available, the Group are then able to assess whether the reductions required to breach the Group's financial covenants, or exhaust available liquidity, are plausible.

Notes to the Financial Statements (continued)

for the Year Ended 31 March

2 Accounting policies (continued)

Going concern (continued)

This reverse stress test at 30 June 2021 shows that, even after assuming that the US private placement loan notes of $88m due to mature before 31 December 2022 and the £45m acquisition term loan facility used to fund the acquisition of NSBU are repaid, and that no additional refinancing occurs, the Group can afford to be unsuccessful on 50% of its target new business and rebid wins, combined with a profit margin 50 basis points below the Group's forecast, and still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with the Group's financial covenants without a requirement for any mitigating actions. At 30 June 2021, the Group had £665m of committed credit facilities and committed headroom of £439m. As at June 2021, the Group's leverage ratio is below both its covenant of 3.5x and the Group's target range of 1x-2x at 0.95x. In undertaking this review the Group has considered the business plans which provide financial projections for the foreseeable future. For the purposes of this review for the Group, the assessment period is considered that to be at least 12 months from 4 August 2021, the date of approval of the Group's condensed financial statements for the six month period ended 30 June 2021.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The Directors intention to continue to trade for the foreseeable future is dependent on the rebase of the financial terms of the Franchise Agreement during 2022 that would result either in a small positive profit margin for the Company from that date, or an exit from the contract.

Based on the letter of support from Serco Group Plc, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, circumstances in respect of the rebase of the financial terms of the Franchise Agreement represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, the ability of the Company to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts due for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is split between passenger ticket revenue, retail revenue and franchise payments received from Transport Scotland. Included within franchise payments are amounts received in accordance with the Emergency Measures Agreement as set out in the Strategic Report.

Revenue is deferred when the Company has received consideration under the terms of a contract in advance of performing the related service or delivering the associated goods. Deferred revenue is recognised as revenue in the profit and loss account when advance ticket sales are redeemed and used for journeys. Retail revenue is recognised at point of transaction, when on-board sales are made. Franchise payments which include the amounts received in accordance with the Emergency Measures Agreement are received from Transport Scotland each rail period and are recognised in the period to which they relate.

Penalties incurred and changes to the network rail track access charges are recognised as costs in the period to which they relate.

Notes to the Financial Statements (continued)
for the Year Ended 31 March

2 Accounting policies (continued)

Tax
The tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes.

Deferred tax assets are generally recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which these items can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset and liability in a transaction other than a business combination and, at the time of the transaction, affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account except where it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority where the Company intends to settle its current tax assets and liabilities on a net basis.

Trade receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant changes in value and have a maturity of three months or less from the date of acquisition.

Notes to the Financial Statements (continued)

for the Year Ended 31 March

2 Accounting policies (continued)

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Basic financial instruments

Trade and other receivables / payables

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are stated at amortised cost using the effective interest method.

Impairment

Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Provisions

Provisions are recognised when the Company has an obligation to make a cash outflow as a result of a past event. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date when settlement is considered to be likely.

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Notes to the Financial Statements *(continued)*

for the Year Ended 31 March

2 Accounting policies (continued)

Provisions (Continued)

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except where this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of termination costs payable for an early exit and the expected loss over the remaining contract period. Where a customer has an option to extend a contract and it is likely that such an extension will be made, any loss expected to be made during the extension period, is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms. The onerous contract provision is discounted where the effect is material.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

For defined contribution plans contributions are paid into publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expenses when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Defined benefit pension obligation

For defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the year in which they occur. They are recognised outside the profit and loss account and are presented in the statement of comprehensive income.

The current service cost represents the increase in the present value of the scheme liabilities expected to arise from employee service in the current year.

Past service cost is recognised immediately to the extent that the benefits are already vested, and is amortised on a straight line basis over the average year until the benefit vests. Gains and losses on curtailments or settlements are recognised in the year in which the curtailment or settlement occurs.

Notes to the Financial Statements (continued)

for the Year Ended 31 March

2 Accounting policies (continued)

Defined benefit pension obligation (continued)

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Share based payments

The Company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the ultimate parent. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. As described below, many of these areas of judgement also involve a high level of estimation uncertainty.

Covid-19 related impacts

During the year ended 31 March 2021, the Company's results have been impacted by Covid-19, and in a number of instances, the recognition and measurement of amounts as at 31 March 2021 has required judgements to be made about the impact of Covid-19. Management assessed each balance on the balance sheet for the impact of Covid-19 as at 31 March 2021, as well as a number of other critical judgements which could also reasonably be considered to be impacted by the ongoing effects of Covid-19. Those items for which Covid-19 was considered to be a critical element of the judgements made, are summarised below. In reviewing areas of the financial statements that could be impacted by Covid-19, Management identified a number of areas subject to judgement, but where it was considered unlikely that a material difference would result from the judgements made. These areas included post balance sheet events, owing to the fact that Covid-19 has been factored into other assumptions and judgements around forecast performance into 2021, and in the absence of material events subsequent to 31 March 2021, no additional judgements were required to be made.

Onerous contract provision (OCP)

Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Company's core contract. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the calculation of a provision booked, is linked to the complexity of the underlying contract and the form of service delivery. Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be a material adjustment to the carrying amounts of the onerous contract provision within the next financial year.

Notes to the Financial Statements (continued)
for the Year Ended 31 March

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Onerous contract provision (OCP) (continued)
Major sources of uncertainty which could result in a material adjustment within the next financial year are:

- The impact of Covid-19 on the longer term performance of the contract and how long any additional Government support continues.
- The ability of the Company to maintain or improve operational performance to ensure costs or performance related penalties are in line with expected levels.
- Volume driven revenue and costs being within the expected ranges.
- The outcome of matters relating to contract pricing, extension and/or termination.
- The ability of suppliers to deliver their contractual obligations on time and on budget.

To mitigate the level of uncertainty in making these estimates Management regularly compares actual performance of the contract against previous forecasts and considers whether there have been any changes to significant judgements. A detailed bottom up review of the provision is performed as part of the Company's formal annual budgeting process. The onerous contract provision is discounted at an appropriate risk free rate where the impact of discounting is material.

Leases
The Company makes use of leases in the operational delivery of its contract. The majority of the Company's operational leases are entered into either for the duration of the contract, or with a termination option included, allowing the Company the option to exit the lease if it so desires. As a result, the most significant judgement that is made in relation to leases, is the derivation of the lease term at the outset of the lease. Extension and cancellation options included in leases, where the Company has the unilateral option to exercise, are included when assessing the lease term only to the extent that it is more likely than not they will be exercised. This assessment is revisited whenever the circumstances of a contract change, or more frequently if Management become aware of a change in the probability of exercising such options.

Retirement benefit obligation
Identifying whether the Company has a retirement benefit obligation as a result of contractual arrangements entered into requires a level of judgement, largely driven by the legal position held between the Company, the customer and the relevant pension scheme. The Company's retirement benefit obligations and other pension scheme arrangements are covered in note 31 of Serco Group plc financial statements.

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, inflation rates and future contribution rates.

In accounting for the defined benefit schemes, the Company has applied the following principles:

- The asset recognised for the Railways Pension Scheme is equal to the full surplus that will ultimately be available to the Company as a future refund.
- No foreign exchange item is shown in the disclosures as the non UK liabilities are not material.
- No pension assets are invested in the Company's own financial instruments or property.
- Pension annuity assets are remeasured to fair value at each reporting date based on the share of the defined benefit obligation covered by the insurance contract.

Notes to the Financial Statements (continued)

for the Year Ended 31 March

4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2021 *£ 000*	*2020* *£ 000*
Retail revenue	32	670
Transport Scotland franchise payments	48,116	14,992
Passenger ticket sales	5,697	25,560
	53,845	41,222

All turnover amounting to £53,845k (2020: £41,222k) is earned in the UK.

5 Other income

The analysis of the Company's other income for the year is as follows:

	2021 *£ 000*	*2020* *£ 000*
Other income	4,459	-

Relates to the settlement of a contractual dispute in relation to historic losses incurred during the introduction of the new train fleet in 2019.

6 Operating profit/ (loss)

The operating profit/(loss) is stated after charging/(crediting):

	2021 *£ 000*	*2020* *£ 000*
OCP utilisation	-	(17,547)
OCP release	(7,053)	-
OCP charge	-	6,224
Property provision charge	226	-
Operating lease expense	17,381	16,451

Notes to the Financial Statements (continued)
for the Year Ended 31 March

7 Interest receivable and similar income

	2021 *£ 000*	*2020* *£ 000*
Interest receivable on pension obligations	5	4

8 Interest payable and similar charges

	2021 *£ 000*	*2020* *£ 000*
Other interest payable	83	243
Interest payable to group undertakings	4,004	1,926
Movement in discount on OCP	121	123
	4,208	2,292

9 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2021 *£ 000*	*2020* *£ 000*
Wages and salaries	7,815	8,162
Social security costs	694	667
Pension costs, defined contribution scheme	104	211
Pension costs, defined benefit scheme	993	946
Share-based payment expenses	22	22
	9,628	10,008

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows:

	2021 *No.*	*2020* *No.*
Provision of rail services	195	179

Notes to the Financial Statements (continued)
for the Year Ended 31 March

10 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2021 £ 000	*As restated 2020 £ 000
Directors' remuneration	286	262
Pension contributions	8	6

Two Directors are employed by another Group company for their services to the Group as a whole. Included in the above remuneration amounts are an appropriate allocation of amounts reflecting their qualifying services to the Company. The restated amounts in respect of the year ended 31 March 2020 reflect the fact that previously, two Directors had their Group-wide salaries included in the disclosure, as opposed to an appropriate allocation for qualifying services. As a result, their respective remuneration amounts included in respect of the year ended 31 March 2020 have been updated to only reflect qualifying services for that year.

*The impact of this adjustment had been a reduction to the Directors' remuneration disclosed in 2020 of £338k from £600k to £262k and a reduction to the pensions contributions disclosed of £12k from £18k to £6k.

In respect of the highest paid Director:

	2021 £ 000	*As restated 2020 £ 000
Remuneration	129	178
Pension contributions	5	3

*The impact of this adjustment had been a reduction to the Directors' remuneration disclosed in 2020 of £115k from £293k to £178k and a reduction to the pensions contributions disclosed of £10k from £13k to £3k.

11 Auditor's remuneration

Auditor's remuneration of £35,000 (2020: £35,000) was payable for the audit of the Company's financial statements.

Non-audit services fees amounting to £3,550 were payable to the auditor during the year (2020: £3,500).

Notes to the Financial Statements (continued)
for the Year Ended 31 March

12 Tax

Tax charged/(credited) in the profit and loss account:

	2021 £ 000	2020 £ 000
Current taxation		
Consortium relief	-	(1,133)
Adjustment in respect of prior years	77	(2,712)
	77	(3,845)

The tax on profit before tax is lower than the standard rate of corporation tax in the UK of 19% (2020: lower than the standard rate of corporation tax in the UK of 19%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
Profit/(loss) before tax	10,605	(8,416)
UK Corporation tax at 19% (2020: 19%)	2,015	(1,599)
Expenses not deductible for tax purposes	8	18
Group relief for nil consideration	(1,117)	-
Movement in unrelieved tax losses	-	344
Effect of the use of unrecognised tax losses	(950)	-
Movement in deferred tax not provided	44	104
Adjustment in respect of prior years	77	(2,712)
Total tax charge/(credit)	77	(3,845)

Factors affecting future tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future tax charge accordingly.

Notes to the Financial Statements (continued)
for the Year Ended 31 March

12 Tax (continued)

Deferred tax

There are £326k of deductible temporary differences (2020: £435k) and £11,631k of unused tax losses (2020: £12,691k) calculated at 19% (2020: 19%) for which no deferred tax asset is recognised in the balance sheet. Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable profit will be available against which they can be realised.

The increased rate of corporation tax from 1 April 2023 mentioned above will lead to an increase in the deferred tax assets not recognised to £15,734k from the current £11,958k.

13 Debtors

	2021 *£ 000*	*2020* *£ 000*
Trade debtors	219	1,054
Amounts owed by group companies	149	-
Prepayments	2,485	4,252
Consortium relief receivable	1,193	1,690
Other debtors	2,564	4,639
	6,610	11,635

The prepayments amounts include £815k due within one year (2020: £1,871k).

14 Cash and cash equivalents

	2021 *£ 000*	*2020* *£ 000*
Cash at bank and on hand	11,491	4,235

Notes to the Financial Statements (continued)
for the Year Ended 31 March

15 Creditors: amounts falling due within one year

	2021 £ 000	2020 £ 000
Trade creditors	2,129	4,436
Accruals and deferred income	3,851	11,089
Amounts owed to group companies	5,003	494
Taxation and social security	417	157
Other creditors	2,031	629
	13,431	16,805

Amounts owed to group companies are repayable on demand and do not bear interest.

16 Creditors: amounts falling due after more than one year

	2021 £ 000	2020 £ 000
Loans and borrowings	71,365	70,165

Within non-current loans and borrowings, there are three loans in place with a group company: £1,200k which incurs an interest at 1 month LIBOR plus 2%, £4,000k which incurs interest at 9% and £66,165k which incurs interest at 8.84%.

17 Provisions

	Contract £000	Property £ 000	Total £000
At 1 April 2020	17,346	-	17,346
Provision charged	-	226	226
Provision release	(7,053)	-	(7,053)
Increase due to unwinding discount	121	-	121
At 31 March 2021	10,414	226	10,640
Non-current liabilities	9,646	200	9,846
Current liabilities	768	26	794

Notes to the Financial Statements (continued)
for the Year Ended 31 March

17 Provisions (continued)

Despite the current support from EMAs, the continuing uncertainty surrounding Covid-19 and the proximity to a contractual rebasing point in our contract with Transport Scotland creates uncertainty that means the Company has recognised an OCP of £10.4m at 31 March 2021 (2020: £17.3m). The position under the terms of the Franchise Agreement, outside of the EMA, provides a mechanism that requires Transport Scotland to bear 50% of contract losses from 1 April 2020 and the Company has the right to seek a rebase to the financial terms of the Franchise Agreement that would result either in a small positive profit margin for the Company from that date, or an exit from the contract.

The Directors are currently anticipating the provision to be utilised over the period to 31 December 2022. The provision will remain subject to an ongoing review process, and should any events occur which are materially different to the expectations in the current assessment of contract losses, or which are currently unforeseen, the provision may need amendment to match the change in circumstance.

The element of the OCP that has been released relates to the projected losses for periods now covered by or expected to be covered by agreements to protect the Company from the adverse impacts of Covid-19.

18 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2021 *£ 000*	*2020* *£ 000*
Within one year	7,665	7,650
In two to five years	5,844	13,476
In over five years	-	385
	13,509	21,511

The amount of non-cancellable operating lease payments recognised as an expense during the year was £7,650k (2020: £6,031k).

The most significant leases are those for rolling stock of £13,165k (2020: £20,688k). The remaining lease obligation relates to office premises of £344k (2020: £823k).

The lease commitments include lease contracts for franchise assets which are obligations of the franchise operator for the period of the leases.

Notes to the Financial Statements (continued)
for the Year Ended 31 March

19 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £104k (2020: £211k).

Defined benefit pension schemes

Caledonian Sleepers Section of the Railways Pension Scheme

As a result of franchising obligations under the Caledonian Sleepers contract, the Company sponsors a section of an industry wide defined benefit scheme, the Railways Pension Scheme (RPS), a UK registered pension scheme which is regulated by the Pensions Regulator.

The RPS section is required to be funded over the period for which the franchise is held with a defined benefit liability recognised on the balance sheet to the extent of that obligation in accordance with IAS 19. The RPS is a shared cost arrangement. All costs, and any deficit or surplus is shared 60% by the employer and 40% by the members. Furthermore, under the franchising obligations, the responsibility of the employer is to pay the contributions requested of the trustee whilst it operates the franchise. There is no residual liability or asset for any deficit, or surplus, which remains at the end of the franchise period. In line with UK legislation the trustees review the contributions required every three years. Due to the ringfenced nature of sections within the RPS, the Company has no obligations other than in relation to the section it currently sponsors. Under this scheme members build a 1/60th pension and 1/40th lump sum based upon their pensionable pay. Some members of the RPS are subject to Protected Persons legislation, which requires individual consent to changes to benefits, and certain rights upon transfer between sections of the scheme.

The Company's defined benefit obligations are valued by independent actuaries using the projected unit credit method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of salary growth and long term expected rates of return for plan assets. Discount rates are based on the market yields of high quality corporate bonds in the country concerned.

Contributions payable to the pension scheme at the end of the year are £426k (2020: £400k).

The expected contributions to the plan for the next twelve months are £434k.

Notes to the Financial Statements (continued)
for the Year Ended 31 March

19 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2021 £ 000	*2020 £ 000*
Fair value of scheme assets	10,380	8,227
Present value of defined benefit obligation	(22,280)	(16,810)
	(11,900)	(8,583)
Other amounts not recognised in the statement of financial position - Member's share	4,760	3,433
Other amounts not recognised in the statement of financial position	7,140	5,150
Defined benefit pension scheme surplus/(deficit)	-	-

Scheme assets

Movements in the fair value of scheme assets are as follows:

	2021 £ 000	*2020 £ 000*
Fair value at start of year	8,227	7,981
Interest income	200	197
Return on plan assets, excluding amounts included in interest income	1,572	(161)
Employer contributions	426	400
Contributions by scheme participants	275	256
Benefits paid	(212)	(381)
Administrative expenses paid	(108)	(65)
Fair value at the end of year	10,380	8,227

Notes to the Financial Statements (continued)
for the Year Ended 31 March

19 Pension and other schemes (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	2021 £ 000	2020 £ 000
Cash and cash equivalents	1,089	1,037
Equity instruments	6,488	5,301
Debt instruments	887	631
Real estate	944	807
Other	972	451
	10,380	8,227

Actual return on scheme's assets

	2021 £ 000	2020 £ 000
Actual return on scheme assets	1,772	36

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

Scheme liabilities

Movements in the defined benefit obligation are as follows:

	2021 £ 000	2020 £ 000
Present value at start of year	16,807	15,770
Current service cost	1,544	1,516
Effect of changes in financial assumptions	3,300	(473)
Effect of experience adjustments	443	-
Interest cost	398	378
Benefits paid	(212)	(381)
Present value at end of year	22,280	16,810

Notes to the Financial Statements (continued)
for the Year Ended 31 March

19 Pension and other schemes (continued)

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2021 %	*2020* %
Discount rate	2.10	2.40
Future salary increases	3.20	3.20
Future pension increases	2.70	2.30
Inflation - pre-retirement	2.30	2.30
Inflation - post-retirement	2.80	2.30

The Company has updated its approach to setting its CPI inflation assumption in light of the consultation response published by the UK Government and the UK Statistics Authority (UKSA) on 25 November 2020 confirming that RPI will be aligned with CPIH from 2030 onwards. For CPI, the Company has increased the assumed difference between RPI and CPI by 0.2% to an average of 0.6% per annum. The estimated impact of the change in the methodology is approximately a £400k decrease in the Scheme's Defined Benefit Obligation.

Post retirement mortality assumptions

The life expectancy tables used by the scheme actuary in valuing the defined benefit obligation are as follows:

	2021		*2020*	
	Table	Multiplier	Table	Multiplier
Pension under £10,300 pa or pensionable pay under £35,000 pa	S2 normal males heavy	n/a	S1 normal males heavy	96%
Pension under £10,300 pa or pensionable pay over £35,000 pa	S2 normal males	n/a	S1 normal males	93%

For the year ended 31 March 2021, male members are segmented into six postcode and pension amount groups (females into two groups) and each group is assigned a separate base table and base table multiplier.

Allowance for future improvements in mortality from 1 January 2016 onwards has been made in line with the 2016 version of the "CMI core projection" model published by the Institute and Faculty of Actuaries, assuming a long-term improvement of 1.25% p.a.. For the period 1 January 2007 to 31 December 2015 allowance for future improvements in mortality has been made in line with the 2015 "CMI core projection" model.

Notes to the Financial Statements (continued)
for the Year Ended 31 March

19 Pension and other schemes (continued)

Expense recognised in the profit and loss account

	2021 £ 000	2020 £ 000
Amounts recognised in operating profit		
Current service cost	928	910
Administrative expenses paid	65	39
Recognised in arriving at operating profit	993	949
Amounts recognised in finance income or costs		
Net interest	(5)	(3)
Total expense recognised in profit or loss	988	946

Amounts taken to the Statement of Comprehensive Income

	2021 £ 000	2020 £ 000
Gain on franchise adjustment	(1,866)	(364)
Actuarial (gain)/loss arising from change in member's share	(866)	127
Effect of changes in financial assumptions	3,300	(473)
Effect of experience adjustments	443	-
Return on plan assets, excluding amounts included in interest expense	(1,572)	161
Amounts recognised in the Statement of Comprehensive Income	(561)	(549)

Notes to the Financial Statements (continued)
for the Year Ended 31 March

19 Pension and other schemes (continued)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

		2021		*2020*
	+0.25%	*-0.25%*	*+0.25%*	*-0.25%*
	£ 000	*£ 000*	*£ 000*	*£ 000*
Adjustment to discount rate				
Present value of total obligation	20,940	23,700	15,770	17,920

		2021		*2020*
	+0.25%	*-0.25%*	*+0.25%*	*-0.25%*
	£ 000	*£ 000*	*£ 000*	*£ 000*
Adjustment to rate of inflation				
Present value of total obligation	23,690	20,940	17,920	15,770

		2021		*2020*
	+0.25%	*-0.25%*	*+0.25%*	*-0.25%*
	£ 000	*£ 000*	*£ 000*	*£ 000*
Adjustment to rate of salary growth				
Present value of total obligation	22,790	21,780	17,240	16,400

The defined benefit obligation as at 31 March 2021 is calculated on the actuarial assumptions agreed as at that date. The sensitivities are calculated by changing each assumption in turn following the methodology above with all other things held constant. The change in the defined benefit obligation from updating the single assumption represents the impact of that assumption on the calculation of the defined benefit obligation.

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown. There has been no change in the methods and assumptions used in preparing the sensitivity analysis since prior year.

There are no asset-liability matching strategies used by the plan or the entity.

The weighted average duration of defined benefit obligation is 25.3 years.

Notes to the Financial Statements (continued)

for the Year Ended 31 March

20 Share capital

Allotted, called up and fully paid shares

	2021		2020	
	No.	*£*	*No.*	*£*
Ordinary share capital of £1 each	1	1	1	1

21 Contingent liabilities and contingent assets

The Company is aware that contingent liabilities may exist where there are commercial claims and potential claims which involve or may involve legal proceedings from a range of parties in respect of contracts, employment, health and safety and other laws and regulations, and regulatory and compliance matters that arise in the normal course of business. The timing of resolution of these claims remains uncertain. The Directors are of the opinion, having regard to legal advice received and the Company's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Company's financial position.

22 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £nil (2020: £nil).

23 Related party transactions

The Company is a wholly owned subsidiary of Serco Group plc, and has taken advantage of the exemption afforded within FRS 102 to not disclose transactions or balances with other entities which form part of its group.

24 Parent and ultimate parent undertaking

The Company's immediate parent is Serco Holdings Limited.

The ultimate parent and controlling party is Serco Group plc, a company incorporated in the United Kingdom and registered in England and Wales. Serco Group plc is the parent undertaking of the smallest and largest group to consolidate these financial statements. These financial statements are available upon request from the Company Secretary, Serco Group plc, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire, RG27 9UY.

25 Post balance sheet events

Since the balance sheet date the third iteration of the Emergency Measures Agreement (EMA 3), which was due to end on 19 September 2021, has been extended to 12 December 2021.